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**Purchasing** Oct 21, 1999

**There's lots more to the Web than click and buy.**

Author/s: James Carbone

Slowly but surely buyers are getting more comfortable with sending purchase orders over the Word Wide Web. They are finding that electronic commerce is a fast, efficient way to handle purchasing transactions. But they are also learning that the Internet is more than just a conduit for transactions.

Purchasing professionals are beginning to recognize the Net as a potential strategic tool to help them communicate with and manage their suppliers. Some OEMs have set up extranets on their Web sites for suppliers to visit. Suppliers can see the latest request-for-quotation (RFQ) with a complete set of technical specifications and blueprints as well as purchasing requirements. Other buyers are using the Internet as a way to gather and store information on supplier performance and then send that performance evaluation to other purchasing pros in the company via the Internet. Others have plans to use the Web to communicate customer demand for products to suppliers so they can ship parts immediately without waiting for a formal purchase order.

All of this communication saves time and money. It also effectively takes the buyer out of transaction processing, freeing up the purchaser to work on issues that are of more strategic importance to company success than order processing.

However, often a buyer's electronic commerce journey begins with the transaction, with the goal of reducing procurement costs by buying over the Internet. IBM is a prime example; the company is moving to Internet relationships with all of its suppliers and in doing so expects to save \$240 million this year.

"The transaction is interesting and a great way to start, but the real value involves more than the transaction," says Patrice Knight, director procurement reengineering and procurement e-business. "The value is in the entire purchasing process." She says that IBM

wants to use the Web as a way to collaborate with suppliers and to integrate them into IBM's business. That is no easy task because IBM has 10,000 suppliers worldwide and Big Blue expects all of them to be e-commerce ready by the end of the year. IBM expects to do \$12 billion in business with its suppliers over the Internet in 1999.

"Very clearly we expect to get operational efficiency and lower cost," says Knight. "That's the decision matrix we put together on our Web investment. We are going to reduce our procurement expenses and lower the cost of what we buy via our adoption of the Web as our technology."

She says lower cost will result from finding new sources of supply and finding data on the Web that can help IBM buyers during negotiations with suppliers as well as by reducing the cost of the transaction.

Knight says the Internet may be an invaluable tool in helping IBM find new suppliers. She says IBM is moving toward having potential new suppliers register at IBM's Web site and cite products and services that they supply. Then when a buyer is looking for a supplier of a new technology or a supplier of an existing technology, he or she can pull up the potential new suppliers from the Web site and begin to evaluate their stated capabilities.

John Paterson, IBM vice president of production procurement, sees the Internet as a much more strategic tool. "I believe that the Web creates the platform upon which strategic relationships can be built," he says. "It takes a lot of effort and energy to have meaningful strategic relationships with suppliers 12,000 miles away. But with the Web you can have your engineers get together with supplier's engineers, you can have video conferencing sessions, data exchanges, and engineering drawing exchanges. I don't think there is any future without the Web relationship with suppliers," says Paterson.

#### Saving time

While IBM's use of the Web is quite interesting, the high-tech giant clearly is not representative of manufacturers as a whole. IBM has taken a leadership position in using the Web for purchasing/supply management applications, which was one of many reasons that Big Blue won Purchasing Magazine's Medal of Professional Excellence this year.

Some buyers are using the Internet simply as a time-saving tool in handling RFQs. Case in point: Delphi Automotive Systems. Delphi's purchasing group has set up an extranet for suppliers to visit.

"For certain packages, we get quotes from multiple suppliers to make sure we get fair market value," says Chris Beal, purchasing supervisor at Delphi Delco. "One way we do that is by sending out an electronic data file for the parts or equipment that we are looking

to source. The file can be quite large if you're using hard-copy prints." So Delphi Delco places electronic versions of the file at its Web site with technical specifications and purchasing requirements. "The system notifies suppliers that they are to come to the Delphi Delco Web site, use their assigned password to quote on the package, pull the package off our Web site, respond and get the quote back to us electronically."

Currently, Delphi Delco uses this with tooling and custom equipment, but the automotive supplier plans to use it with other commodities.

Communicating the bid packages over the Internet saves a lot of time because it eliminates the need to have the packages printed and mailed out. "We measured it and on average it saves 23 man hours because we don't have to put the bid packages together and send them out. It frees us up to work on more important things," says Beal.

Who needs a PO?

While some OEMs want to use the Internet as a way to handle transactions, Micron Electronics is working on a unique Internet program that would virtually eliminate a purchase order transaction between Micron and its suppliers.

Micron wants to use the Internet to let suppliers see when it receives an order from a customer. "My goal is to get to the point where when a customer orders a computer from us, our suppliers 'feel' that order," says Haycock. As soon as Micron receives an order it would be entered into Micron's system, and suppliers would see the order. That would be their signal to replenish whatever product they are supplying Micron. Example: If Micron received an order for a computer that required a 17-inch monitor and a 13-gigabyte hard drive, Micron's monitor and drive supplier would be notified of the order and would react by shipping the monitor and drive to Micron. There would effectively be no formal purchase order for a drive or a monitor.

Haycock says such a system would obviously reduce paperwork, but there would be other advantages. "We're talking about compressing the supply chain and speeding up the whole procurement process, reducing cost and inventory," he says.

Such a system would require a high degree of trust between Micron and its suppliers.

Capturing data

While the Internet can reduce procurement costs, it can also be useful in capturing information about a supplier's performance. Some buyers are collecting the data and using it in supplier

performance reviews.

Example: Supplier responsiveness. Many e-commerce software programs collect data on how quickly a supplier took to respond to a request for information or an RFQ, or to fulfill a purchase order. Buyers can monitor if a supplier offered alternative information--say a more cost-effective part--as opposed to just responding to an RFQ. Buyers can also track how often a particular supplier was the lowest bidder and use that information the next time an RFQ is sent out.

"The Internet gives purchasing professionals access to a broad range of information," says Stephanie Kozinski, director of product marketing for Digital Market, a provider of e-commerce software and services. "The Internet provides them information that allows them to make strategic decisions better and allows them to influence design earlier. It will help purchasing professionals to be more influential at their company."

The Internet also enables suppliers to make better strategic decisions because it can provide them with necessary information faster, according to Ed Sprock, director of logistics and former director of production programming and scheduling at DaimlerChrysler.

DaimlerChrysler uses the Internet to communicate warranty information to suppliers through extranets, says Sprock.

"We have saved hundreds of millions of dollars in warranty costs that we might have experienced because we are sending warranty and trend analysis through the Internet back to the supply base," he says.

For example, an air conditioner manufacturer can visit DaimlerChrysler's warranty database where information is updated weekly. "The supplier can look at the problem areas that we are experiencing on a warranty basis, by car line or by platform, and he can come in and make adjustments. For example, he may be having a warranty problem on a switch on an AC unit for this particular car model and can begin his reengineering process that much sooner," says Sprock.

The advantage of using the Internet in this way is time.

"In the old days we used to bring the suppliers in to show them their problems and beat them up about it," he says. "Now the supplier's quality manager can log in on a weekly basis, and he sees any changes in warranty problems."

It's not just warranty information that's available to suppliers. Suppliers can look at their volume of business with us, how their quality ratings are doing, and see how their score (supplier cost

reduction effort) proposals are being implemented. "Virtually every piece of information that we can quantify in a report and that we have on a database, suppliers can look at via the Internet," says Sprock.

DaimlerChrysler puts its "bluebook" on the Internet for suppliers. The bluebook is the company's detailed production plans for the next two years. "It's in high demand by the first-tier supply base because it tells them how many vehicles we are going to build, how many Stratuses are going to be built at what plant," says Sprock. "It used to be mailed out, but now it is on the Internet. The work schedule part of the bluebook is updated once a week.

"It provides detailed information electronically as early in the process as we can get it to our suppliers. We didn't do this to save mailing cost. We did this to push information into the supply chain. It makes it easier for suppliers to feed this information to the second-, third- and fourth-tier suppliers electronically," says Sprock.

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